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October 2000

The Appeal

Volume 2, Issue 2 October 2000

We're Back!

It's been quite some time since our last newsletter and we thought it's about time to publish another one. Our hope at the State Tax Appeal Board is to use this format to provide helpful tips for the County Boards. In addition, we solicit ideas or questions you would like see addressed in future newsletters.

Training Video

We mailed a copy of this video to each county tax appeal board secretary in mid-May, with the instruction to be sure that each board member had a chance to see it and to keep the video in the permanent archives of the county tax appeal board. Please let us know if you haven't seen this video. We think it contains useful information on proper hearing procedure as well as a brief overview of the Department of Revenue valuation approaches. ***(Please see contest opportunity on this page!)***

Decision Writing

It would be helpful if you could include reasons for your decisions. We do see a number of decisions like "value reduced" with no reasons given. It would also be MOST helpful if you would reference your amended values in the box provided on the appeal form. Even if you don't amend any values, if you would write in the DOR values (both land and improvements) that you're upholding in this section, you'd be most appreciated.

Cost Approach to Value

The cost approach is based on the theory that the market value of an improved parcel can be estimated as the sum of the land value and the depreciated value of the improvements. The cost approach is applied in eight steps:

State Tax Appeal Board Web Page

State Tax Appeal Board decisions, hearing schedules, board member bios, an appeal form for downloading and a basic overview of the appeal system can be found at our web page: **www.state.mt.us/doa/stab/stab_main.htm**

ENTER OUR TRAINING VIDEO CONTEST AND WIN A GREAT PRIZE!

Send us the correct answers by mail on or before November 30. A drawing will be held and the winner will receive a prize in the mail! Correct entries will reflect a careful viewing of our wonderful video!

- Who player the taxpayer in the mock hearing?
- What county tax appeal board is conducting the mock hearing?
- Does Mary Bryson wear earrings?

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1. Estimate the value of the site as though vacant and available to be developed to its highest and best use.
2. Estimate the direct (hard) and indirect (soft) costs of the improvements as of the effective appraisal date.
3. Estimate an appropriate entrepreneurial incentive or profit from analysis of the market.
4. Add estimated direct costs, indirect costs, and an entrepreneurial incentive or profit to arrive at the total cost of the improvements.
5. Estimate the amount of depreciation in the structure and, if necessary, allocate it among the three major categories: physical deterioration, functional obsolescence, and external obsolescence.
6. Deduct the estimated depreciation from the total costs of the improvements to derive an estimate of their depreciated cost.
7. Estimate the contributory value of any site improvements that have not already been considered. (Site improvements are often appraised at their contributory value, i.e., directly on a depreciated cost basis.)
8. Add the site value to the total depreciated cost of all improvements to arrive at the indicated value for the property.

The cost approach is most reliable when the property improvements are new or nearly new and reflect the highest and best use of the site. If the utility and condition of the property are close to ideal, depreciation will be minimal. Because depreciation can be difficult to estimate, the cost approach is less reliable and less convincing when it is used to value older properties. When an improvement has special construction features or sales considered comparable are unavailable, the cost approach is especially useful (*Appraising Residential Properties*, Third Edition, Appraisal Institute).

On a personal note: Congratulations to our esteemed chairman Greg Thornquist on his wedding to Cynthia McCarvel on October 7!

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Training Video

It has taken some time, but we're finally getting the training video put together. We expect to be sending a copy to each County Board early this summer.

State Tax Appeal Board Decisions

Decisions of the State Tax Appeal Board can be found at our web page:

www.state.mt.us/doa/stab/stab_main.htm

The Market or Sales Comparison Approach

In this section, we'll address the market approach or sales comparison approach. This value indication is illustrated on what the Department of Revenue submits at the hearing as "Montana Comparable Sales". We hope this information will help in the course of your hearings. Example:

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◆ State Tax Appeal Board Decisions
◆ Market or Sales Comparison Approach
◆ The Property Record Card (PRC)

The Department of Revenue's Property Record Card (PRC)

In this section, we'll address components of the PRC that you will most likely be dealing with in the course of your hearings. The Department of Revenue's PRC makes use of numerous acronyms. These acronyms can be difficult for the taxpayer to comprehend as to what they represent and how they were used to establish the market value. Example of information on a PRC:

SUMMARY OF VALUES

In this section the total value for the land and improvements will be stated. In addition the method of appraisal used to establish the market value will also be identified.

Land - $ Imp - $ Total Value - $

Reason Code:

0 – Cost *(cost approach)*

1 – Market *(sales comparison approach)*

2 – Income *(income approach)*

3 – Override to Cost

4-9 – Reviewer Override

The "Cost Approach" is one method of determining market value. While one of the other methods, income or sales approaches, may have been selected as the most appropriate method, every property in the State of Montana has a value determined from the cost approach.

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MONTANA COMPARABLE SALES

PARCEL IDENTIFICATION	**SUBJECT**	COMP 1 (2)	COMP 2	COMP 3	COMP 4	COMP 5
Parcel ID (1)	02-3014-215...					
Street Number	528					
Street Name	4TH Street					
NBHD ID / NBHD Group (3)	8C/M-5	8C/M-5	8C/M-5	8C/M-5	8C/M-5	8C/M-5
Property Type (4)	RU	RU	RU	RU	RU	RU
LAND DESCRIPTION (5)						
Frontage	0	0	0	0	0	0
Depth	0	0	0	0	0	0
Total Acres	10	57	.17	22	14	.14
DWELLING DESCRIPTION (6)						
Number of Stories	1.0	1.0	1.0	1.0	1.0	1.0
Attic	0	0	0	0	0	0
Exterior Wall	Masonite	Shingle	Wood	Alum/Vinyl	Shingle	Wood
Style	Conventional	Conventional	Conventional	Conventional	Conventional	Conventional
Year Built/Effective Year	1919/55	1940/63	1924/60	1935/60	1925/50	1940/55
Basement	None	None	None	None	None	None
Bed/Fam/Tot/Bath, HF	02/0/06/1/0	02/0/04/1/0	02/0/04/1/0	02/0/04/1/0	02/0/04/1/0	02/0/05/1/0
Heat	Central	Central	Central	Central	Central	Central
WBFP ST, Opn/ Metal FP					1	
Bsmt Garage Capacity	0	0	0	0	0	0
Finished Basement	0	0	0	0	0	0
Grade **(7)**	4	4	4+	4	4	4
CDU **(8)**	Poor	Poor	Fair	Poor	Fair	Fair
First Floor Area **(9)**	800	792	780	828	904	700
2nd Floor Area	0	0	0	0	0	0
Tot – Liv Area	800	792	780	828	904	700
Detached Garage Area **(10)**	336	0	0	0	375	280
Attached Garage Area	0		0	308	0	0
Open Porch Area	80	0	182	0	0	0
Closed Porch Area	56	0	0	0	0	32
PRICING DATA						
RNC (11)	$41,500	$37,660	$42,260	$43,010	$43,300	$50,350
Percent Good **(12)**	45%	49%	55%	47%	58%	58%
RCNLD **(13)**	$22,600	$22,330	$28,120	$24,470	$30,380	$35,330
Total OB&Y **(14)**	$680	$740	$1,240	$550	$1,150	$2,590
Condo Master	0	0	0	0	0	0
Land Value **(15)**	$8,316	$11,003	$10,566	$12,121	$9,666	$9,666
Total Cost **(16)**	$31,596	$34,073	$39,926	$37,141	$41,556	$47,586
VALUATION						
Sale Date)		12/94	05/94	06/93	12/95	04/95
Sale Price)		$45,000	$35,000	$35,000	$40,000	$58,500
MRA Estimate **(17)**	$39,683	$38,279	$40,282	$39,206	$46,357	$51,231
Adjusted Sale **(18)**		$46,404	$34,400	435,476	$33,326	$46,951
Comparability **(19)**		47	65	66	70	71
Weighted Estimate **(20)**	$39,351					
Market Value **(21)**	$38,200					
Field Control Code **(22)**	3					
Indicator **(23)**						

(1) The geo-code is the property identifier.

(2) In many appeals, the DOR will present the Montana Comparable Sales with the locations of the comparable properties blocked out. The taxpayer should have the opportunity to know all the information that was used to value his or her property. There have been Supreme Court decisions that address this issue. It's up to you to make sure the taxpayer is provided with the necessary and appropriate information. Not to mention that you may need to know the locations of these properties to make a fair and reasonable decision.

(3) This will identify the DOR neighborhood determination. You folks have knowledge of the area and can make a determination of the homogeneity of the neighborhoods selected by the DOR.

(4) This is a property identifier

(5) The DOR will value land on a price per square foot, per front foot, and per acre. Typically, lake and river fronting property will be valued on a price per front foot. The subject property in the illustration above indicates a land area of .10 acres or 4,356 square feet (43,560 SF X .10).

(6) This section of the comp sheet will provide a description of the improvements. This may consist of building materials, style of construction, physical characteristics, and building area

(7) This identifies the quality of construction of the improvements. This is explained on page three of this newsletter.

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The PRC instructs the appraiser to identify the physical components of the structure being appraised. There are numerous fields on the PRC that the appraiser selects as the appropriate category or component which matches the property. A select few of these are:

BUILDING FEATURES

Story Height – 1, 1 ½ , 2, etc.

Style – Bi-level, Ranch, Log, etc.

Roof Type – Flat, Gable, Hip, etc.

Roof Material – Wood Shake, Metal, etc.

Foundation – Concrete, Wood, Stone, etc.

Basement – None, Crawl, Part & Full.

Finished Basement – Quality – Minimal, Fair, Typical & Good

Heating & Cooling – None, Non-Central, Central & Central A/C.

Heated Floor Area – *This is expressed in amount of square feet.*

Living Accommodations – Total Rooms, Bedrooms & Family Rooms.

Plumbing – Full Baths, Half Baths, Additional Fixtures and Total Fixtures. *(additional fixtures would include the hookup for a washing machine, hot water heater, water softener, etc.)*

OTHER FEATURES

Built-in Garage - # of Cars

Basement Garage - # of Cars

Masonry Fireplace – Stacks & Height

Miscellaneous Other Features – *(additional features would include a built-in microwave oven, exhaust fans in bathrooms and kitchen, overhead garage door openers, etc. A built-in feature could also be described as one that would not normally be removed when the property is sold.)*

BUILDING AGE, QUALITY, DEPRECIATION

Year Built – *1970* Year Remodeled - *1985* Effective Year – *1980*

Based on the above illustrated dates, the property was originally constructed in 1970 and remodeled in 1985. Older properties are typically updated over their life. When alterations are made to the improvements, it typically will extend the useful life of that structure. This is the reason that the actual age, 1970, and the effective year or age, 1980, are not the same. Types of updating that could extend the life include new roof, new siding, new heat system, remodeling to the interior, etc. Normal upkeep of a property can also extend the useful life. If a property has not been updated, the actual age and effective year will be the same. The year remodeled will appear as 1900. The 00 symbolizes that nothing has changed. Another way to look at the effective year or age is how the property represents itself in the market place. What is typical for the neighborhood? The appraiser's opinion of the effective year is a ***key factor*** *in the determination of physical depreciation.*

Physical Condition

1 – Un (unsound) 2 – Poor 3 – Fair 4 – Average 5 – Good 6 – Excellent

The appraiser's opinion of the physical condition is a ***key factor*** *in the determination of physical depreciation.*

Grade (1 - 9)

1 – Cheap 2 – Poor 3 – Low Cost 4 – Fair 5 – Average 6 – Good

7 – Very Good 8 – Excellent 9 – Superior

The Department of Revenue's "Montana Appraisal Manual", furnishes the specifications and photographs for each grade. The DOR's numerical grading scale, with 5 as the average quality of construction. A plus (+) and minus (-) adjustment is permitted within each category. The grade 5 category is average quality construction in the State of Montana, not what may be typical in your county. The Montana Appraisal Manual is a tool used by the appraiser and will have a significant impact in the value determination. Each appraisal office should have a copy and it's helpful to have it at the hearing for all parties involved. It can be very useful when making a decision. ❄

(8) The CDU (Condition, Desirability & Utility) is a component used to assist the appraiser in establishing the depreciation for the improvements. The DOR's CDU rating system ranges from unsound to excellent. The DOR's Montana Appraisal Manual gives a good explanation of how a CDU is determined and its effect on the value determination. This can be found on pages 47-2 - 47-7 of the Montana Appraisal Manual. Each appraisal office should have a copy of this manual.

(9) Floor area is expressed in the amount of square feet.

(10) Garages and porches are expressed in the amount of square feet.

(11) RCN is short for replacement cost new. This is what it would cost to replace the improvement recognizing construction costs in 1996. Based on the example, the RCN is $41,500, the amount of living area is 800 SF, therefore, the replacement cost per square foot is $51.88. This can be a useful analysis when comparing the subject property to the DOR's comparables.

(12) Percent Good is the opposite of the depreciation applied to the property. In the example the percent good is 45%, therefore, the amount of depreciation applied is 55%.

(13) RCNLD represents replacement cost new less depreciation. In the example, it's calculated as follows: $41,500 X 55.458% = $22,600.

(14) Total OB&Y is the depreciated value of any out-buildings (garage, driveway, shed, etc.).

(15) This is the land value as determined from CALP (Computer Assisted Land Pricing). In the example, the DOR has determined a price per square foot of $1.91. ($8,316/4,356 SF = $1.91 SF)

(16) This represents the total property value from the cost approach. (improvement value + OB&Y value + land value)

(17) MRA (Multiple Regression Analysis) estimate is defined as: a mathematical method for producing a model for a dependent variable as a linear function of independent factors. Let's just say it's a statistical calculation.

(18) Adjusted sale is recognizing the differences between the comparable and the subject. This is calculated as follows:
Comp. Sale Price + (MRA est. of subj. – MRA est. of the comp.); #1 $45,000 + ($39,683 - $38,279) = $46,404

(19) Comparability: This is an indication of the adjustment from the sale price of the comp to the adjusted sale price of the comp. The smaller the number, the better the comparable is considered. In the example, the comparability #'s range from 47 to 71. These would be considered good comparable properties

(20) Weighted estimate is calculated from a complex formula. This formula can be found in the DOR's "Book of General Evidence".

(21) Market Value is the DOR's value determination for the subject property from the sales comparison approach. The calculation to arrive at the market value for the example is:

Description	Value	Sorted Values	Middle 3 Values	Average of 3 Values – Market Value
Comp #1	$46,404	$33,326		
Comp #2	$34,400	$34,400		
Comp #3	$35,476	$35,476	$35,476	
Comp #4	$33,326	$39,351	$39,351	**$38,170 rounded to $38,200**
Comp #5	$46,951	$39,683	$39,683	
MRA Estimate	$39,683	$46,404		
Weighted Estimate	$39,351	$46,951		

(22) Field control code is an indication of variations among the adjusted sales. 1 - indicates less than 5%, 2 – indicates 5% - 10%, 3 – indicates 10% - 20%, 4 – indicates more than 20%.

(23) Indicator is a measure for the DOR to determine if the sales comparison approach valued the property correctly or if maybe the appraiser should consider the cost approach. Any comparable that has been adjusted over 50% is flagged with ***ADJ***. Any comparable that has been flagged with ***NC*** is not considered comparable. Generally, under 100 is considered GOOD, 100 – 150 is ACCEPTABLE, 150 – 200 is MARGINAL and over 200 is NON-COMPARABLE.

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